



23. Over what lifecycle are energy efficiency investments in Michigan economically evaluated?

Broadly, energy efficiency investments are evaluated two ways. To determine compliance with the Energy Optimization Standard (now 1% of load per year for electric utilities and 0.75% of deliveries per year for natural gas utilities), only first year savings are considered. For purposes of determining total benefits in the cost tests and for reporting net benefits of the programs, the investments are evaluated over the expected useful life of the measure.

Useful life is included in the Michigan Energy Measures Database (see www.michigan.gov/mpsc/0,4639,7-159-52495_55129---,00.html) that is used to score and evaluate utility program accomplishments. Useful life, like all other data included in the database, is determined using engineering data on the measures and validated by field studies where possible. Useful life for currently authorized measures range from 1 year for behavioral changes and temporary measures provided with an energy audit to 20 years for a solar water heater.

Also noteworthy is that for purposes of compliance with the spending cap, all utilities are treating energy efficiency programs as current expenses to be recovered in the current year rather than adding costs of long-lived measures to recoverable ratebase (capital) accounts. Current law allows either treatment, but ordinary business accounting practice would be to place expenditures on long-lived assets in capital accounts to be amortized over approximately the useful life of the item purchased. By definition, such a change to this ordinary method of business accounting would have the effect of reducing year one incurred costs and relaxing the program spending cap, which would enable implementation of more costly but longer-lasting energy efficiency measures.